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AN ANALYSIS OF HIRE PURCHASE SYSTEM IN NON-BANKING FINANCIAL COMPANIES (NBFCs)

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ABSTRACT: Consumers can buy things on credit and pay for them in monthly installments with the hire purchase method. This study aims to provide a comprehensive analysis of the hire purchase system as it pertains to NBFCs by investigating its components, merits and downsides, and regulatory context. Part one of this research delves into the inner workings of the hire-buy system and the significance of NBFCs in the delivery of financial services to customers. By analyzing crucial aspects of hire purchase agreements such down payments, installment plans, and ownership transfer procedures, this article elucidates the significance and influence of hire purchase agreements for both buyers and NBFCs.

1. INTRODUCTION

In a hire-buy agreement, the provider sells the products directly to the lessee. In a hire-by arrangement, the borrower and lender enter into a loan agreement, but the hirer is not immediately obligated to purchase the item. The buyer also takes title to the object they acquire under a hire purchase agreement, making it a loan transaction. A hire purchase agreement can be used to conceal a hidden lending transaction. If the court wants to know if the arrangement is a loan or a hire buy, it will look at the terms. Despite the name, the agreement was really a loan arrangement for hire buy financing. The buyer consented to purchase the vehicle from the loan firm, and it was registered in their name. Consequently, they became the only owners of the vehicle.

SCOPE OF THE STUDY:

- This research confirms that hire-purchase programs are a viable option for SMEs looking to acquire vehicles.
- For instance, it would be beneficial to demonstrate how the study is grounded in theory.
- In addition to the more typical forms of borrowing, hire-purchase should be actively pushed.

NEED OF THE STUDY:

It is critical that the research completely grasp the transaction because hire-purchase is a typical method of financing company vehicles.

OBJECTIVES OF THE STUDY:

- The hire-purchase program incorporates an analysis of the NBFC's commercial vehicle lease and purchase programs.
- Examining the steps involved in purchasing and employing Investigating Potential Funding Mechanisms for the Hiring Process

2. RELATED WORK

For sixty years, British expats have been renting out houses in India. After Commercial Credit Corporation acquired Auto Supply Company, it formed Hire-Buy. Although its headquarters are in the north, the Motor and General Finance and

Installment Supply Company has a presence in Madras. It was during the 1920s and 1930s when these businesses first appeared. The availability of rental cars and tools has significantly increased. You may rent-to-own high-end consumer goods at home improvement stores and hardware stores. Why is Hire Buy even possible? Because of Murph Radio and Singer Sewing Machine. The cost of renting a vehicle has skyrocketed. Commercial auto lots and financing institutions are on the rise. Due to the high value of security and the ease of repossession, this banking company has expanded rapidly. The majority of borrowers are members of the same household.

FEATURES OF HIRE PURCHASE SYSTEM:

- Money is going to be paid.
- The tenant is granted possession of the property upon the execution of the lease agreement.
- The customer receives the items once the final rental payment is made.
- Seller has the right to reclaim the items in the event of nonpayment; nevertheless, the buyer or lessee is not charged for the return.

PARTIES TO HIRE PURCHASE CONTRACT

- The parties involved in a hire-purchase agreement are the buyer and the seller. These days, a buyer, a lender, and a seller all make up a hire purchase agreement. Due to an increase in the number of finance organizations, the sale and financing components of a hire-buy agreement are now distinct. Lenders and buyers get into rent-to-own agreements. The clock reads three in the afternoon.
- Terms used by the HPA.
- The dealer's hire-purchase arrangements are funded by the bank. Dealer warranty, taxes, and other charges....A few items are purchased. Our dealer is here to assist the HPA. People who lend money. Upon completion of the plan, the client gets billed. As company deposits increase, dealer payments decrease.
- If all goes according to plan, the dealer will purchase the products and agree to the hire-acquire transaction. Assuming all is in order, the financing company will execute the lease and provide the lessee with payment details. When items are late, the lending firm notifies the merchant.
- The dealer hands over the car's title to the lender once the lessee accepts.
- Clients make the purchase.
- The item becomes the lessee's property upon completion of the last payment and receipt of a loan business conclusion certificate.

RIGHTS AND OBLIGATIONS OF THE PARTIES TO HIRE PURCHASE SYSTEM:

RIGHTS OF THE HIRER:

To purchase with rebate:

- Owner has the option to sell rented goods to tenant at full price during this period. What remains after the return is known as the hire purchase.
- Divide the total amount owed in the future by the highest price paid. Simply add the difference to get the Cash Price Discount.
- Conflicting hirer rights agreements are invalid. Lessees benefit from the increased return on the lease.

To terminate the agreement:

Prior to the final payment, the tenant has the option to cancel the rental. When the lease is up, the tenant is required to

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provide the owner at least 14 days' notice. The tenant is responsible for returning the leased items and paying the remaining balance in the event of a lease violation.

To appropriate payments

Prior to the final payment, the tenant has the option to cancel the rental. When the lease is up, the tenant is required to provide the owner at least 14 days' notice. The tenant is responsible for returning the leased items and paying the remaining balance in the event of a lease violation.

To Assign and Transmit:

The agreed-upon rental cost must be paid in full in the event that the renter causes damage as a result of their carelessness. Stopping Abuse. If something gets broken while rented, the renter is responsible

OBLIGATION OF THE HIRER:

To Comply With the Agreement

A written warning from the landlord is sufficient to terminate the lease in the event that the tenant fails to pay rent as agreed upon. One week's notice is required for hire-purchase payments that occur every two weeks or fewer. Any breach of contract by the tenant gives the owner the right to terminate the lease. A written notice from the owner to the tenant is sufficient to terminate the lease.

Not to Make Unauthorized Use

The owner is entitled to receive the down payment in addition to the rent payable up until the end of the contract in the event that the tenant cancels. Rent that has been seized can be repaid.

RIGHTS OF THE OWNER:

A written warning from the landlord is sufficient to terminate the lease in the event that the tenant fails to pay rent as agreed upon. One week's notice is required for hire-purchase payments that occur every two weeks or fewer. Any breach of contract by the tenant gives the owner the right to terminate the lease. A written notice from the owner to the tenant is sufficient to terminate the lease.

To retain hire:

The owner is entitled to receive the down payment in addition to the rent payable up until the end of the contract in the event that the tenant cancels. Payable rent can be recouped.

To for feit the initial deposit:

The advance might be kept by the owner as a punishment in contracts.

OBLIGATION OF THE OWNER:

- The owner is required to execute and deliver a contract to the company within a reasonable timeframe.
- Negotiate an arrangement with the surety.
- Dream big.
- Funds received from suppliers and consumers.
- The total, monthly due, and due date for each payment are all displayed in the payment plan..

BENEFITS OF HIRE PURCHASE

- Any time the business needs an asset, it can utilize it and pay for it.
- The contracts offered by HP are straightforward. New software and technology simplify tasks.
- Debentive and value-added tax are both available to lessees.
- The initial investment.
- Keeping people secure is a monetary priority.
- Client default results in payment to HP.

3. COMPARISON OF HIRE PURCHASE SYSTEM TO OTHER FORMS OF FINANCING

HIRE PURCHASE SYSTEM V/S LEASING

Equipment leasing and renting are

common ways for businesses to generate revenue. Companies can acquire assets including computers, furniture, office supplies, automobiles, and machinery through corporate asset financing. When comparing HP with lease purchase, the only defining feature is the mode of payment. The total cost of an asset can be spread out over the duration of a lease purchase agreement, which is used by many financial organizations. Under different names, hire-buy services are essentially the same as leasing. The asset, however, belongs to the client. The risk incurred by the hirer is the reason why a premium is charged. The 1980s saw the rise of leasing, which initially targeted physical goods. Leasing is now more commonly linked with the acquisition of machinery, whereas hire buy was formerly linked with the acquisition of automobiles. Investment allowance and depreciation can only be claimed by the lessee.

HIRE PURCHASE SYSTEM V/S LOAN AGREEMENT

Of all the credit agreements, this one is the most common. When the final payment is made, the asking price takes effect. Still, you can find stores that offer interest-free layaway plans. Monthly payments are the standard method for repaying a loan. You cannot back out of a purchase order once it has been accepted; once you sign the contract, you own the products legally. If the seller is unable to reclaim the things due to late payment, they may still pursue damages in a lawsuit. There were still instances of hire-purchase agreements, even though credit sale and loan arrangements had mostly supplanted them.

Signing an HP agreement is essentially like renting a product until you pay for it in full. Until then, you are just making use of the borrowed items. You have the freedom to cancel your order whenever you want and get your money back. You could have to pay the remaining amount if the buying price is less than 50%.

NON BANKING FINANCIAL COMPANIES (NBFCs)

Businesses that provide banking services to the public but are not banks are known as "non-banking financial companies" (NBFCs).

NBFCs rely heavily on fee-based services like leasing and hire purchase to generate income. Here are some fund-based activities in which NBFCs are involved:

- Hire purchase
- Leasing
- Bill discounting
- Promoter funding
- Bridge financing
- Inter corporate deposits
- Public deposits

There is a wide range of fee-based and non-fund-based activities that NBFCs engage in. The following are listed:

- Merchant banking
- Corporate advisory
- Stock broking
- Syndication of loans
- Shares and bonds underwritten

The Companies Act mandates the registration of NBFCs. The Reserve Bank of India (RBI) oversees and controls them. In addition, the SEBI closely monitors individuals engaged in what is known as "Merchant Banking." To meet the rising demand for capital during the boom years of the economy, NBFCs sprung up in the 1950s and 1960s.

- Credit rating
- Reporting to RBI
- Furnishing of half yearly return
- Prohibition of loan against its own shares
- Concentration on credit and

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investments

4. PROCEDURE OF HIREPURCHASING IN SIL

Shriram Investments Limited will set up commercial vehicle hire-buy financing by completing these steps:

SOURCES OF FUND FOR HIRE PURCHASE

COMPANY'S OWN FUNDS:

Shriram finances the purchasing of used cars using its own funds, as well as funds collected through public deposits and investments.

Debentures or bonds having maturities ranging from one to ten years and interest rates that are greater than the market average for firms in the same industry, without compounding. Here is a rundown of all the different kinds of public debentures, along with the interest rates associated with them.

- GROWTH BOND
- HAPPY BOND
- PRINCESS BOND
- PROTECTION BOND
- STRAIGHT BOND

LENDING OF FUNDS:

Clients can finance the purchase of a business vehicle via the hire buy program by making use of the company's debenture possibilities.

PARTIES TO HIRE PURCHASE AGREEMENT:

HIRER:

Many small business owners are in the market to rent commercial cars.

OWNER:

Investor "SHRIRAM INVESTMENTS LIMITED" is the asset's supporter. Consequently, the branch's division manager, with the help of the zonal officer and the supervision of regional heads, decides on the lending amount, which is the maximum that the branch can lend to a customer for a specific duration in compliance with the company's regulations.

Proposal Stage

When a client brings in a car proposal and estimate, a field agent looks into it. He then goes into depth about the car's history and present condition after a thorough inspection. Before deciding whether or not to extend credit, the company's research team verifies the references and addresses any further inquiries from the customer. Additionally, the customer is obligated to furnish proof of their transportation insurance. A picture of the client, the guarantor, and the vehicle is required by us as a condition of the deal. In order for the hirer's RC book to show that the vehicle is under the company's Hire purchase3 arrangement, it must be endorsed at the regional transport office after the client and guarantor have signed it and the branch manager has authorized it. Both the reference and the likely employer are revealed by Shriram. It verifies the data given by each side and then uses the vehicle's condition and the market value to determine the car's worth. **Funding amount:**

The amount of funding is based on the car's condition and its current market worth. The yearly budget of the company is the maximum amount that can be advanced, and the maximum duration for financing a car is twelve years.

75% of OLV – Original Liquidation Value

605 of FMV – Fair Market Value

TABLE1: FUNDING AMOUNT

MARKET VALUE	ADVANCE RATE	FUNDING AMOUNT
415000	60%	Rs 250000/-

Therefore, this aid customer would be funded: **60% (415000)=249000**which is

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rounded off to **Rs.250000/-**

Therefore as per the case, the **Advanced Amount=Rs.250000/-**

All required documentation is signed by both parties: Shriram and the customer.

Advance Stage

The branch manager will send a demand draft to the vendor for 2,50,000 rupees if the request is approved by the divisional manager. The supplier receives the DD from the branch manager. The manager of the local office is accountable for working with the borrower to devise a fair repayment plan that meets the standards set by the parent firm. Whenever reimbursement was due, the division office sent these documents to the zone manager. The reimbursement will be executed once the zone manager has examined all of the relevant accounting data.

Collection Stage

On a monthly basis, Shriram's field representatives will collect rent and provide the tenant with a receipt. The financing date mentioned on the DD will serve as the start date for the payment plan. Pay the first year's expenses individually; for the rest of the agreement, all loan-related expenses, including interest and insurance premiums, are combined into one single payment. Here are the recommended loan terms and amounts for this specific situation:

TABLE2: DETAILS OF TRANSACTION

Advanced amount	Rs.250000/-
Interest (flat rate)	15 %
Tenor	36 months
Insurance premium (Rs.10000/ annum for 2 years)	Rs.20000/-

Note: The insurance premium of the first year is considered to be paid by thecustomer himself.

INTEREST PAYABLE = Advanced Amount * Interest * Tenor

= 250000 * 15/100 * 3

= Rs.1,12,500/-

Loan Amount = Advanced Amount + Interest Payable +Insurance Premium

TABLE3: CALCULATIONS of LOAN AMOUNT

Advanced Amount	250000
Interest Payable	112500
Insurance Premium	20000
TOTAL LOAN AMOUNT	**3,82,500/-**

EMIs = Loan amount / Tenor(months)

= 3,82,500 / 36

=Rs.10, 625/ per month

The customer will receive a repayment schedule from the company whichcontains the following:

TABLE4: Repayment Schedule

Months	Due Date	Installment Payable	BalanceDue

The collection detail of the customer is as follows:

TABLE5: FLAT PAYMENT

Year	HP Installment Amount Due (annual)	Interest	Principal (funded amount + insurance)
1	127500/-	61824.33	65, 675.67
2	127500/-	37500	90,000
3	127500/-	13175.67	1,09,534

Interest Allocation on yearly basis:

1st year = 112500 * 366/666 = Rs.61824.33

2nd year = 112500 * 222 /666 = Rs.37500

3rd year = 112500 * 78 /666 =Rs.13175.67

TABLE6: STRUCTURED PAYMENT (40:30:30)

Year	HP InstallmentAmount Due(annual)	Interest	Principal	EMIs
1	153000/-	61824.33	65, 675.67	12,750
2	114750/-	37500	90,000	9562.5
3	114750/-	13175.67	1,09,534	9562.5

The branch manager also submits a statement of actual collectionhirer wise to the regional office.

Non-performing Assets

A record of each contractor's payment history is kept by the field agent. With the approval of upper management, the company will take action if a tenant is more than three EMIs late. Postdated

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checks given to the bank at the time of arrangement will be deposited if the tenant does not reply to the notice delivered by the corporation. Two legal options are available to the business in the event that a customer returns an unpaid check:

Cheating case

Cheque bounce case

The corporation will notify the consumer, then take possession of the vehicle and begin legal proceedings to reclaim the amount. The company would then hold an auction for the vehicle. The lessee will face legal action if the proceeds from the vehicle's sale are insufficient to fulfill the debt.

Termination of agreements

The division's headquarters will be contacted by the branch office manager after the agreement's provisions have been fulfilled. In the event that the lessee decides to file for foreclosure, the regional manager will specify how the branch manager is to voluntarily collect the funds and send them to the zone office. The branch manager sent the termination paperwork to corporate after reviewing it. Once Shriram hands in his resignation papers, his employment with the company will come to a close.

5. TERMS AND CONDITIONS OF HIRE PURCHASE GUARANTEE

The guarantor is an enormous third party that has substantial legal responsibilities under this arrangement. In this role, he protects either the employer or the transaction. When an owner lends out their vehicle, the guarantor promises to pay for any damages the lessee causes. Once Owner has received all monies owed, payable, or due to Owner under this Agreement, the Guarantor's duties under this Agreement will end. The Hirer's responsibilities under this agreement will remain fully valid and enforceable until it expires or is canceled earlier, as both parties have agreed.

SCHEDULE OF PAYMENT

Any and all payments due under the terms of the hire purchase agreement must be paid by the hirer. This alternative, called a hire purchase, will allow him to pay for the car over time with only a Re.1 down payment.

RIGHTS OF THE COMPANY AS A FINANCIER

Vehicle inspections are permitted at any time during the duration of this agreement by the owner or their authorized agent. In case the Owner sells, assigns, or transfers his rights under the agreement, the Lessee undertakes to treat the Buyer's successors and assigns as parties to the Hire Purchase Agreement. The owner can retrieve the vehicle and change the registration to his name if the renter signed a blank transfer letter in the event that the rental agreement is canceled due to the renter's delinquency.

HIRE PURCHASE AGREEMENT

At the agreed upon rental rates, Lessor agrees to lease the car to Lessee, and Lessee agrees to rent or lease the vehicle from Lessor.

TITLE AND OWNERSHIP

Being only the owner's bailee, the renter possesses no legal or equitable claims to the car.

RIGHTAND OBLIGATIONS OF THE HIRER

The lessee must obtain the owner's written consent before selling, reassigning, subletting, pledging, or otherwise disposing of the rented vehicle, or allowing others to use it. If there are any problems with the vehicle, the lessee can sue the manufacturer for as much as the warranty covers. The car's owner isn't liable for fixing problems or making sure the car's safe to drive.

TERMINATION BY DEFAULT

The right to terminate the lease is reserved for the owner in the event of a material breach by the tenant. The renter has broken the lease by being late with rent payments. Over the past 48 hours, there has been no notification to the owner regarding an accident that resulted in damage to the vehicle or someone else's person or property.

It is possible to end the rental agreement if the renter does something illegal or utilizes the vehicle in an unauthorized way. In the event that the Owner exercises their right to reclaim the Vehicle upon termination of this Agreement, Lessee will be responsible for reimbursing the Owner for all accrued but unpaid HP installments and other changes, as well as any fines or expenses related to retrieval and restoration. In order to help its subsidiaries financially, the parent business has established partnerships with other banks.

THE SCHEME:

The logistics of the bank's truck fleet are overseen by Shriram Group. It is possible that the financial sector will meet the quota for priority sectors. If a bank's priority quota program is unable to provide a truck driver with a loan, they may be able to obtain a loan with better terms by using our technique. Shriram will swiftly assume control of the portfolio in the event of a decline in performance. There is a grace period of five years for the credit.

The only difference between this scenario and the first is that in this one the bank offers the money and the business deals with the customer directly.

Collection and Payment details

Shriram Investments Limited would receive recurring payments from the owner. Before Shriram Investments Limited can issue bank receipts in its name, it must acquire permission from the bank. Shriram Investments Limited used to wire funds every month on the 15th. The operator's accounting will be handled by Shriram Investments Limited. Shriram Investments Limited would provide the bank with monthly statements upon request.

Documentation

The operator and the bank are the only parties that must be included in the paperwork. On the other hand, Shriram Investments Limited need the bank's authorization in the following cases.

Getting receipts and giving them out.

- Repossession of the vehicle in the case of nonpayment.
- Procedures for RTO
- The bank has the option to contract with an outside firm to keep tabs on its customers' accounts and security measures if it so desires.

NPAs

Any contract with more than four EMIS records is considered NPAS. In fewer than thirty days, Shriram Investments Limited anticipates having collected payment for all of the non-performing contracts (NPAs) for which it has taken responsibility for.

DOCUMENTS TO BE SIGNED

- This paperwork requires the signatures of both the guarantor and the renter.
- Ask for The promissory note specifies the amount that the lessee is obligated to pay to the landlord upon the expiration of the lease period.
- This letter gives the car owner legal right to sell the rental car in the event

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that the renter defaults on the payment.

- Before a hire-purchase or guarantee transaction may go forward, the parties involved must give their informed approval to the conditions and terms.
- Signing the following RTO paperwork is necessary for employers.
- Submit Form 20 for Rule 47 registration.
- Form 29: Application for Change of Name.
- In order to formally request notification of a vehicle title transfer, you must use Form 30.
- Notification of HP Agreement Termination, Form 35. Request for Substitution (Form 26): Documentation of Registration Utilization Revocation of a clearance and approval certificate may be requested by ACC in accordance with Rule 204, as mandated by Rule 61(1).
- Application for a New Vehicle Identification Number (Form 27) Under Regulation 54.

Maintaining Documents Procedure 59: Transferring RC/Office Documents, Form 33

6. CONCLUSION

When it comes to financing company vehicles, hire buy is a great option. Its many benefits have caused it to swiftly overtake more conventional forms of fundraising. Commercial vehicle hire-purchase plans are now offered by more NBFCs. When it comes to small business truck loans in the United States, Shriram Investments Limited is one of the strongest competitors. Not long ago, the discriminatory employment practices of the NBFC "Shriram Investment Limited" came to light. National bank financial companies (NBFCs) offer more services, including hire purchase, than conventional banks. Commercial vehicle financing through hire buy is the best alternative available. Shriram offers logistics companies and individual drivers in-house finance for pre-owned automobiles. Thanks to its connections with big banks, Shriram can help you get a loan for a new or used car.

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